

# Shanghai Flash

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## Economic Situation of the Yangtse Delta Region in 2003

### 1. General Situation

2003 was a turbulent year for China. SARS as well as droughts and floods disturbed the economic development severely, so that the growth rate in the second quarter fell to 6.5%, mainly due to the effect of SARS. Nevertheless, China's economy enjoyed a faster growth in the year as a whole. The Yangtse delta region - including in this term the city of Shanghai and the two provinces of Jiangsu and Zhejiang - continues to play a locomotive role in the country's economy, particularly in the fields of investment and foreign trade.

**China's GDP** reached 11,669.4 billion RMB (1,411.1 billion US\$), an increase of 9.1% in 2003, 1.1 percentage points more than in 2002. The GDP per capita topped US\$1,000 in 2003 for the first time in the history.

During the same period of time, the aggregate GDP of **the delta region** climbed to 2'790.3 billion RMB (337.4 billion US\$), accounting for 23.9% (22.1% in 2001) of China's total GDP, a remarkable result compared to its rather low percentages of population (10.9%) and area (2.2%). Due to the rapid increase of exports and investment in fixed assets, Shanghai, Jiangsu and Zhejiang have all won their highest growth rates in recent years.

**Shanghai** reported a GDP of 625.08 billion RMB (75.58 billion US\$) in 2003, an increase of 11.8% (10.9% for 2002) over the previous year. This was the highest growth rate since 1998 and the twelfth consecutive double digit growth rate. **Jiangsu** Province, the second largest provincial economy in China after Guangdong province, recorded a GDP of 1245.18 billion RMB (150.57 billion US\$), up 13.5%, 4.4 percentage points higher than the national average. The GDP of **Zhejiang** province reached 920 billion RMB (111.25 billion US\$), up 14% (12.3% for 2002). Measured by per capita GDP (19,730 RMB or 2,385 US\$ in 2003), Zhejiang is the richest province in China.

### 2. Private Consumption: Stagnant due to SARS

Severely influenced by SARS, the country's private consumption was stagnant, reflected in the situation of the retail sales in the first half of 2003. **China's** total retail sales growth went down to 8% **in the first half of 2003** from 8.8% in 2002 and from 10.1% in 2001. In the same period, the retail sales growth rate in **Shanghai** went down to 8.8% after having reached 9.3% in 2002; in **Jiangsu** it was just up to 12.7% (compared with 12.1% for the whole of 2002) and in **Zhejiang** it went down rapidly from 12.6% for 2002 to 8.6% in 2003.

While SARS showed its strongest effect in the service sector, many kinds of key consumer articles, however, like personal computers, mobile phones, and even cars and houses, still sold well due to an upgrading of the consumption structure in accordance with a steady and fast increase of personal disposable incomes in recent years. Sales of sedan cars in China surged 75.3% in 2003 compared to 2002 and reached 1.97 million units.

**In 2003 as a whole**, however, **China's** retail sales totalled 4,584.2 billion RMB, up 9.1% (compared with 8.8% in 2002) from the previous year; in **Shanghai** retail sales reached 222.06 billion RMB, up 9.1% (up 9.3% in 2002); in **Jiangsu** the sales recorded 356.65 billion RMB, up 13.7% (up 12.1% in 2002) and in **Zhejiang** they were 315.7 billion RMB, up 10.9% (up 12.6% in 2002).

### 3. Investment in Fixed Assets: One of the Main Engines of Growth

Since 1998 Chinese economic growth has been strongly driven by a pro-active fiscal policy, featuring heavily on increased investments in fixed assets, especially in the field of infrastructure. This situation continued in 2002 and in 2003 in particular, since all of local legislative and government organs were re-elected earlier this year and many officials tended to show their ambition in their economic plans further.

Reaching 5' 511.8 billion RMB (about 666.5 billion US\$), enacted investments in fixed assets for the whole of **China** grew at an extraordinary rate of 26.7% in 2003 over the same period of the previous year, recording the fastest growth since 1994.

In the delta region, investments in fixed assets accelerated in 2003 as well: in **Shanghai**, they reached 245.21 billion RMB (corresponding to 29.65 billion US\$), a rise of 12.1% (up 8.2% in 2002); in **Jiangsu** they totalled 533.58 billion RMB (64.52 billion US\$), a rise of 38.6% (up 16.5% in 2002) and they recorded 494.70 billion RMB (59.82 billion US\$) in **Zhejiang**, an increase of 38.1% over the previous year (up 24.9% in 2002).

### 4. Foreign Investment: Massive Influx Continued

China has become one of the most preferred destinations for foreign direct investments in recent years. Contracted foreign direct investment (FDI) in **China** increased 39% to 115.07 billion US\$ in 2003 over the same period of 2002, while actually utilized FDI stagnated at 53.51 billion US\$, up only 1.4% reflecting the negative impact of SARS to China's economy and the stronger international competition for attracting FDI.

Multinationals are moving more and more of their manufacturing bases from Southeast Asia to China. By the end of 2003, there were more than 465' 277 foreign invested enterprises in China, with contracted foreign investment of 943.13 billion US\$ and actual foreign investment of 501.47 billion US\$. It is important to realize, however, that more than 60% of the capital under the heading of FDI is still coming from ethnically Chinese sources. For accumulated investment the amount is still higher than 75% of the total sum.

The **Yangste delta region** saw an accelerating influx of foreign investment since 2001. The total FDI of the region was about 27.1 billion US\$ in 2003 (18.56 billion US\$ in 2002) in terms of actually utilised value, accounting for 51% (up 35% in 2002 and 30% in 2001) of China's total. Actually utilised FDI in **Shanghai** was 5.85 billion US\$ (5.03 billion US\$ in 2002), an increase of 30.1 % over the previous year (up 14.5% 2002). In **Zhejiang** it amounted to 5.45 billion US\$ (3.16 billion US\$ in 2002), an increase of 72.4% (up 43% in 2002), and in **Jiangsu** it reached 15.80 billion US\$ (10.37 billion US\$ in 2002), an increase of 52.4% (75.4% in 2002). Jiangsu therefore became the most preferred province for FDI, surpassing Guangdong province for the first time in terms of both contracted and actually utilized FDI.

**Swiss direct investment** is also increasing in China and in the delta region as well. By the end of 2003, there were 613 Swiss-invested projects in China with a total accumulated value of 2,780

million US\$ in terms of contracted investment. Among them, a majority of 64% concentrated in the Yangtse delta region. In Shanghai, Swiss direct investment totalled 1,306 million US\$ in terms of contractual value for 138 projects, while in Jiangsu and Zhejiang it was 405 million US\$ for 86 projects and 26 million US\$ for 7 projects respectively (See Table 2).

## 5. Foreign Trade: Another Motor of Growth

Customs statistics show that **China's total foreign trade** volume increased by 37.1% on a year-to-year base to 851.2 billion US\$ in 2003 (in 2002: 620.8 billion US\$, up 21.8%). **Exports** rose 34.6% (22.3% in 2002) to 438.37 billion US\$ (325.57 billion USD in 2002); **imports** grew more rapidly by 39.9% (21.2% in 2002) to 412.84 billion US\$ (295.22 billion USD in 2002); the trade surplus stood at 25.53 billion US\$ (30.35 billion US\$ in of 2002). Low prices and reasonable quality gave China's products an edge in the world markets. China has considerably benefited from a weak U.S. dollar as the RMB is virtually pegged to the US currency. On the other hand, China's economic boom, the rising demand by foreign-funded enterprises and by private firms as well as the reduced import tariffs and licences as a result of China's entry to the WTO have spurred imports.

The **delta region** held a leading position in China's foreign trade. The **export** value of Shanghai was 48.48 billion US\$ in 2003 (32.06 billion US\$ in 2002), an increase of 51.2% (16% in 2002) compared to the previous year. Jiangsu exported goods in the value of 59.14 billion US\$ (38.48 billion US\$ in 2002), an increase of 53.7% (33.3% in 2002) and Zhejiang's exports grew 41.5% (28% in 2002) to reach an amount of 41.6 billion US\$ (29.42 billion US\$ in 2002). The region's total export value reached 149.22 billion US\$ (100 billion USD in 2002), accounting for about 34% (31% in 2002) of China's total export value.

**Imports** in the Yangtse delta region increased even faster than exports in 2003. During the year, Shanghai imported goods with a value of 63.92 billion US\$ (40.61 billion US\$ in 2002), an increase of 57.4% (22.1% in 2002) over the previous year. Jiangsu imported 54.53 billion US\$ (31.82 billion US\$ in 2002), an increase of 71.3% (41.6% in 2002) and Zhejiang's imports grew 58.9% (27.7% in 2002) to reach an amount of 19.8 billion US\$ (12.54 billion US\$ in 2002). The region's total import value reached 138.25 billion US\$ (85 billion US\$ in 2002), accounting for 33.5% (29% in 2002) of China's total imports.

The **trade balance** of **Shanghai** therefore showed a deficit of 15.44 billion US\$ in 2003 (a deficit of 8.55 billion US\$ in 2002), reflecting the city's increasing demand for foreign goods in the high-tech and higher quality brackets due to internationalisation in the field of consumer goods. This demand itself was mainly due to a fast and steady increase in personal incomes and to a growing import demand for foreign-funded enterprises as well. **Jiangsu** reduced her trade surplus to 4.61 billion US\$ from 6.66 billion US\$ in 2002) and **Zhejiang** remained the most aggressive trading province in China with a trade surplus of 21.8 billion US\$, accounting for 85% (56% in 2002) of China's total trade surplus.

**Swiss trade relation with the Yangtze-delta region** developed also rapidly last year. As Table 2 shows, the delta region imported goods with a total value of 964 million US\$ from Switzerland, an increase of 51% in 2003 over the previous year, and exported a total value of 302 million US\$ to Switzerland, an increase of 40%. Shanghai, Jiangsu and Zhejiang imported 550 million US\$ (an increase of 44%), 253 million US\$ (an increase of 53%) and 143 million US\$ (an increase of 80%) respectively from Switzerland. The export of Shanghai, Jiangsu and Zhejiang to Switzerland were respectively 90 million US\$ (an increase of 33%), 111 million US\$ (an increase of 64%) and 97 million US\$ (an increase of 29%; remark: all these figures do not include the indirect trade via Hong Kong.)

## 6. The Challenges: Old and New

The economic situation in China will remain dynamic in the near future. According to Chinese Premier Wen Jiabao in his recent report to the Second Session of the 10th National People's Congress, the top legislature, the target growth rate of China's GDP is set by the government at 7% for 2004. The target is set for a "stable and rapid economic growth without drastic fluctuations" and has given ground for discussions in economic circles. The estimation made by the main Chinese research institutes are mostly higher than 8.5 %. Another double-digit increase for the delta region provinces remains very likely for the current year again.

But the challenges are there as well. The Chinese government is facing not only a sluggish world economy and an uncertain global political situation, reducing demand from abroad, but also a deflationary pressure in the home market marked by slower growth of private consumption and by a considerable overproduction in many fields. High unemployment rates and a stagnant rural income growth will very likely continue to challenge government policies. Hidden unemployment in the countryside in particular could not be corrected by twenty-five years of development. Population increase has kept the rural population roughly at the same level as in 1980. Migration into urban areas has thus just helped to increase problems in these growth centres, it did not allow for an alleviation of the rural employment situation.

**The most serious problem** remains therefore the high **unemployment pressure** in urban and in rural areas. According to official statistics, the number of unemployed people registered in the urban areas totalled 8 million by the end of 2003. The unemployment rate in terms of this kind climbed to 4.3% by the end of 2003, up 0.3 percentage points over the previous year. But these figures do not include the "laid-off workers" (about 14 million people) and the floating population (estimated at 100 million, concentrated in big cities like Beijing, Shanghai and Shenzhen, mainly composed of jobless rural laborers). The central government has vowed to keep its registered unemployment rate below 4.7% this year and to create more than 9 million new jobs. This is obviously not enough for urban job-seekers, who stand this year at about 25 million, including around 10 million school and college graduates who will have difficulties to find their first job.

Shanghai's registered unemployment rate was 4.9% at the end of 2003, as reported by the Shanghai Labor and Social Security Bureau, with a registered figure of 301,000 persons unemployed (more 13,200 than that by the end of 2002). In Jiangsu it was 4.1% (a drop of 0.1 percentage point, compared with that by the end of 2002 ) and in Zhejiang 4.2%, at the same level of the previous year. Again, these statistics do not include the "laid-off workers" and the migrant population, totalling about 3.7 million out of the 17 million people in Shanghai.

**A second problem** is the growing income gap, not only between urban and rural residents, but also among urban households as well. A survey conducted by a Beijing-based research institute showed that the average per capita income of urban residents was 3.1 times that of rural residents in 2002 (2.8 times in 1995). The real disparity between urban and rural people is even wider if the additional social welfare of urban citizens, such as medical care, unemployment insurance and minimum living relief, to which most rural people cannot access, are taken into account. Urban households' annual disposable income per capita reached 8,472 RMB (1,020.7 US\$) in 2003, a real increase of 9% over the previous year, while the per capita net income of China's rural people was only 2,622 RMB (317.0 US\$) in 2003, an actual increase of 4.3% only.

In 2002, according to the survey, the top 1% of persons with the highest incomes earned 6.1% of the total income of the society; the top 5% of persons with the highest income had nearly 20% of the total income of the society; and the top 10% of persons with the highest income earned 32% of the total income of the Chinese society.

The most wealthy people in China include private entrepreneurs and entertainment stars, then comes the group of top managers of State-owned enterprises in the process of economic reform and industrial restructuring, while the underprivileged group consists of jobless and laid-off urbanites as well as poor farmers (about 28 million people), mostly in the backward western areas of China.

**The third problem** are inflationary pressures. Money supply registered a rapid increase once again. By the end of 2003, the broad money supply (M2) was 22,122.3 billion RMB (2,665.34 billion US\$), up 19.6% (2.8 percentage points higher) over the same period of previous year; narrow money supply (M1) was 8,411.9 billion RMB (1,013.48 billion US\$) at the same time, up 18.7% (1.9 percentage points higher). Cash in circulation (M0) amounted to 1,974.6 billion RMB (237.90 billion US\$), up 14.3% (4.2 percentage points higher).

Driven by rapid economic growth, particularly investments, China's consumer price index, the key barometer for inflation, rose 3.2% on a year-to-year base in December 2003 and January in 2004 - the strongest rise since April 1997. According to a report by the Chinese central bank, it will grow by 3% this year, compared to 1.2% in 2003. The ex-factory price of China's industrial products, an indicator of consumer price trends, rose 3.5% in January 2004 on a year-to-year base, compared to the 1.9% growth in November and 1.2% in October. Steel, aluminum and other raw material prices rose about 30% recently.

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Table. 1

**Current Economic Indicators\* of the Swiss Consular Area**

Year		2002		2003	
		volume	growth rate (%)	volume	growth rate (%)
<b>GDP (billion RMB)</b>	<b>China</b>	<b>10239.79</b>	<b>8.0</b>	<b>11669.40</b>	<b>9.1</b>
	Shanghai	540.88	10.9	625.08	11.8
	Jiangsu	1063.63	11.6	1245.18	13.5
	Zhejiang	767.00	12.3	920.00	14.0
	Anhui	356.90	8.9	397.32	9.2
	<b>Consular Area</b>	<b>2728.41</b>		<b>3187.58</b>	
<b>Total Retail Sales of Consumer Goods (billion RMB)</b>	<b>China</b>	<b>4091.10</b>	<b>8.8</b>	<b>4584.20</b>	<b>9.1</b>
	Shanghai	203.52	9.3	222.06	9.1
	Jiangsu	321.58	12.1	356.65	13.7
	Zhejiang	287.80	12.6	315.70	10.9
	Anhui	122.87	7.5	133.12	9.8
	<b>Consular Area</b>	<b>935.77</b>		<b>1027.53</b>	
<b>Completed Investment in Fixed Assets (billion RMB)</b>	<b>China</b>	<b>4320.20</b>	<b>16.1</b>	<b>5511.80</b>	<b>26.7</b>
	Shanghai	215.84	8.2	245.21	12.1
	Jiangsu	384.92	16.5	533.58	38.6
	Zhejiang	345.80	24.9	494.70	38.1
	Anhui	113.33	17.6	147.76	30.4
	<b>Consular Area</b>	<b>1059.89</b>		<b>1421.25</b>	
<b>Exports (billion USD)</b>	<b>China</b>	<b>325.57</b>	<b>22.3</b>	<b>438.37</b>	<b>34.6</b>
	Shanghai	32.06	16.0	48.48	51.2
	Jiangsu	38.48	33.3	59.14	53.7
	Zhejiang	29.42	27.9	41.60	41.5
	Anhui	2.45	7.5	3.06	24.9
	<b>Consular Area</b>	<b>102.41</b>		<b>152.28</b>	
<b>Imports (billion USD)</b>	<b>China</b>	<b>295.22</b>	<b>21.2</b>	<b>412.84</b>	<b>39.9</b>
	Shanghai	40.61	22.1	63.92	57.4
	Jiangsu	31.82	41.6	54.53	71.3
	Zhejiang	12.54	27.7	19.80	58.0
	Anhui	1.73	29.6	2.88	66.6
	<b>Consular Area</b>	<b>86.70</b>		<b>141.13</b>	
<b>Foreign Direct Investment (during the period)</b>					
<b>Projects</b>	<b>China</b>	<b>34'171</b>	<b>30.7</b>	<b>41'081</b>	<b>20.22</b>
	Shanghai	3'012	22.5	4'321	43.5
	Jiangsu	5'801	62.0	7'301	25.9
	Zhejiang	3'364	45.6	4'442	32.0
	Anhui	338	30.0	431	
	<b>Consular Area</b>			<b>16'495</b>	
<b>Contracted (billion USD)</b>	<b>China</b>	<b>82.8</b>	<b>19.6</b>	<b>115.07</b>	<b>39.03</b>
	Shanghai	10.58	43.4	11.06	23.5
	Jiangsu	19.67	132.8	30.81	56.6
	Zhejiang	6.79	35.4	12.05	77.5
	Anhui			1.02	
	<b>Consular Area</b>			<b>54.94</b>	
<b>Actually Utilised (billion USD)</b>	<b>China</b>	<b>52.743</b>	<b>12.5</b>	<b>53.51</b>	<b>1.44</b>
	Shanghai	5.03	14.5	5.85	30.1
	Jiangsu	10.37	75.4	15.80	52.4
	Zhejiang	3.16	42.9	5.45	72.4
	Anhui	0.38	11.4	0.39	4.1
	<b>Consular Area</b>	<b>18.94</b>		<b>27.49</b>	

Source: Chinese Authorities

\* All statistics not including Taiwan, Hong Kong and Macao.

Table. 2

**Swiss - Yangtze-Delta Region Economic Relations\***

	Import from Switzerland		Export to Switzerland		Swiss Investment (accumulated)		
	2002	2003	2002	2003	Contracted by end of 2003	Actually by end of 2003	Projects by end of 2003
<b>Shanghai</b>	381.16	549.50 (+44.17%)	67.36	89.69 (+33.16%)	1'306.35		138
<b>Jiangsu</b>	165.00	253.00 (+53.04%)	68.00	111.00 (+64.25%)	405.00	268.00	86
<b>Zhejiang</b>	79.74	143.44 (+79.89%)	75.02	96.64 (+28.83%)	25.82	7.95	7
<b>Anhui</b>		18.15 (+76.90%)		4.88 (+2.80%)	35.71		5
<b>Delta Region</b>		<b>964.06</b>		<b>302.21</b>	<b>1'772.88</b>		<b>236</b>
<b>China</b>		<b>2,683.34</b>		<b>839.69</b>	<b>2,780.00</b>	<b>1,900.00</b>	<b>613</b>

Source: Chinese authorities

Note: in million USD